



Payment of \$514.30 . . . . .		
. \$460.03		
al Balance After 2nd Biweekly		
Payment . . . . .		
. \$99,891.66		
Interest Accrued as Part of 3 <sup>rd</sup> Biweekly		
Payment of \$514.30 . . . . .		
\$459.78		
Principal Balance After 3 <sup>rd</sup> Biweekly		
Payment . . . . .		
. \$99,837.12		
Interest Accrued as of 4 <sup>th</sup> Biweekly		
Payment of \$514.30 . . . . .		
. \$459.52	Principal Balance After 4th Biweekly	Payment
. . . . .	. \$99,782.32	4 Days'
Accrual of Interest as Part of 5th		
Biweekly Payment of \$514.30 . . . . .		. \$131.22
Total Interest Accrued for 60 Days . . . . .		
. \$1,970.82		

The above calculation demonstrates the second component which reduces interest. It has an arithmetic progression which, over the life of the loan, has a substantial effect. It is more pronounced as the loan becomes more seasoned. Frequently people ask whether the results that emanate from a biweekly mortgage could be achieved just by prepaying an extra monthly payment every year.

That certainly would achieve the purposes of the first component but, depending on what time of the year the extra payment would be made, it would not in all likelihood achieve the purposes of the second component. The practical benefit of the biweekly loan is to make sure that prepayments are made.

### **Types of Biweekly Mortgages**

There are basically two types of biweekly mortgages, fixed rate and adjustable rate. The Federal National Mortgage Association (FNMA) has developed a uniform instrument for the fixed rate biweekly mortgage. As yet, there is no uniform instrument for the adjustable rate biweekly mortgage. The mechanics of the adjustable rate biweekly mortgage are much more complex. Without the advent of computers, they would have been virtually impossible to implement. For instance, in the case of a one year adjustable loan that has a rate of 11% for the first year but adjusts to 12% for the second year, 26 biweekly payments would be at 11% covering 364 days (26 x 14). The next biweekly payment would have to be at 11% for one day and 12% for 13 days. Without accounting for leap years, the progression would continue, *e.g.*:

First Payment Year 2 -- 1 day at old rate, 13 days at new rate

First Payment Year 3 -- 2 days at old rate, 12 days at new rate,

and so forth.

Leap years, however, do have to be factored in. Centenary years not divisible by 400 are not leap years. Thus, the year 2000 will be a leap year. For those who will still be practicing at the time of subsequent centenary years, they will have to make a note on their calendars to adjust their computer programs.

### **Relevant Terms of the Fixed Rate Biweekly Note and Mortgage**

FNMA has developed a fixed rate biweekly payment note and a rider to the standard FNMA/FHLMC mortgage form #3033 which incorporates the relevant note provisions into the mortgage. A copy of the FNMA Rider (Form 3177) is appended hereto as Appendix "A".

The relevant provisions are as follows:

1. Payments will be made every 14 days.
2. Payments will be made by an automatic deduction from an account maintained by the Borrower with the Lender. This is normally done by an electronic transfer. Frequently, Borrowers who are paid biweekly can have their pay electronically deposited into such an account. Sometimes these accounts are also linked with an overdraft checking feature to insure availability of the funds when the payments become due.
3. An authorization for the Lender to deduct the payments from the account.
4. The final payment date which is stated in two different formats. The first is the date on which the loan would be paid if all biweekly payments are made on time. The second is the final payment date if the loan had been written on a monthly basis. The reason both dates are stated is because the documents provide that if a Borrower is in default of three consecutive biweekly payments, the Lender may convert the loan back to monthly payments.
5. A late charge provision in accordance with Real Property Law §254(b)(1) of 2% of any payment which is more than 15 days late. Unlike the monthly mortgage, a second payment has already become late before the late charge may be imposed. It, of course, is calculated on the biweekly payment amount, not the monthly payment amount.
6. A provision changing the word "monthly" in the mortgage to "biweekly" and changing escrow calculations from 1/12th of the annual amount to 1/26th of the annual amount.

### **Relevant Provisions of the Adjustable Rate Biweekly Note and Mortgage**

FNMA/FHLMC does not have a biweekly adjustable rate mortgage. Some adjustable rate biweekly notes and mortgages in use contain an amalgamation of the provisions set forth above for the biweekly fixed rate note and mortgage and those set forth in the FNMA/FHLMC adjustable rate rider with some modifications (see Appendix "B"). The principal modifications are set forth below.

1. The monthly adjustable rate mortgage in its provisions dealing with the calculation of its changes provides as follows:

"Before each Change Date, the Note Holder will calculate my new interest rate by adding \_ percentage points ( \_\_ %) to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Section 4(D) below, this rounded amount will be my new interest rate until the next Change Date.

The Note Holder will then determine the amount of the monthly payment that would be sufficient to repay the unpaid principal that I am expected to owe at the Change Date in full on the maturity date at my new interest rate in substantially equal payments. The result of this calculation will be the new amount of my monthly payment."

2. The biweekly adjustable rate mortgage provides:

"Before each Change Date, the Note Holder will recalculate the term and maturity date on the reduced principal balance that will exist on the Change Date using the current monthly principal and interest payment."

Thus, for a one-year adjustable rate loan of \$100,000 with a 30-year term and an interest rate of 10% in year one, which adjusts to 11% for year two, the calculation would be as follows:

Principal balance at the end of year 1 . . . . .	\$98,493.06
Current monthly principal and interest	
at 10% . . . . .	\$877.58
New remaining term. . . . .	27.5 years

Once the new term and maturity date have been determined as above, the following provision of the note is then applied:

"The Note Holder using the reduced term and new interest rate will recalculate the new principal and interest payment for the next period. The result of this calculation will be divided by 2 and is called the 'Full Payment.' It will be the new amount of my biweekly payment."

Thus, when you take the new remaining term of 27 years 6 months as calculated above and apply the new interest rate of 11% to the reduced balance of \$98,493.06, you will come up with a new monthly payment of \$949.62. When divided by two, it will give a new biweekly payment of \$474.81.

It should be kept in mind that unlike the monthly adjustable rate mortgage where only the interest or monthly payment can change, in the case of the biweekly adjustable rate mortgage the term as well may change.

If the interest rate goes up on the change date, the term will **decrease**. If the interest rate goes down on the change date, the term will **increase**. The term, however, would never exceed the original 30-year term. Periodic and lifetime caps would also affect the term adjustment.

The adjustable biweekly mortgage also contains the following provision:

"(E) Effective Date of Changes

My new interest rate will become effective on each Change Date. I will pay the amount of my new biweekly payment beginning with the first biweekly payment date after the Change Date until the amount of my biweekly payment changes again. (In some instances less than 14 days will elapse from the change date to the first new biweekly payment date which would be 14 days after the previous biweekly payment date. In those instances, the number of days elapsing

from the change date to the new biweekly payment date will accrue interest at the newly adjusted rate of interest and the remainder of days for the 14 day period would accrue interest at the previous interest rate. Where the interest rate accrues at different rates during the first biweekly payment after the change date, the amount of the payment applied to principal may be greater or less than that applied from subsequent payments depending on whether or not the new rate of interest is higher or lower than the previous rate of interest.) All subsequent biweekly payments, until changed again, will accrue interest at the new interest rate."

This provision is placed in the note and mortgage to deal with the 365th day or the 365th and 366th days in a leap year, as explained above.

### **Conclusion**

The biweekly mortgages can be beneficial to both Lender and Borrower. The Lender benefits by pricing a loan based on its monthly maturity and having that loan paid off substantially before that date. The Borrower has the advantage of a program that will build equity substantially faster than a comparable monthly loan as shown in Appendices "C" and "D." This can mean a substantial dollar savings to the Borrower.

**\*John G. Hall, Esq. practices in Staten Island, New York. He is a member of the Executive Committee of the Real Property Law Section of the New York State Bar Association.**

**The author would like to thank Edward Klingele, Senior Vice President, and Mary A. Cautela, Assistant Vice President, of Staten Island Savings Bank for their assistance with this article.**

**Appendices follow**

# APPENDIX A

## BIWEEKLY PAYMENT RIDER (Fixed Rate)

**THIS BIWEEKLY PAYMENT RIDER** is made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_ and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed (the "Security Instrument") of the same date given by the undersigned (the "Borrower") to secure Borrower's Note (the "Note") to \_\_\_\_\_ (the "Lender") of the same date and covering the property described in the Security Instrument and located at:

-----  
[Property Address]

**ADDITIONAL COVENANTS.** In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

### A. BIWEEKLY PAYMENTS

The Note provides for the Borrower's biweekly loan payments, and the termination of the Borrower's right to make the biweekly payments, as follows:

### 3. PAYMENTS

#### (A) Time and Place of Payments

I will pay principal and interest by making payments every fourteen days (the "biweekly payments"), beginning on \_\_\_\_\_, 19\_\_\_\_. I will make the biweekly payments every fourteen days until I have paid all of the principal and interest and any other charges described below that I may owe under this Note. My biweekly or any monthly payments will be applied to interest before principal.

I will make my biweekly or any monthly payments at \_\_\_\_\_ or at a different place if required by the Note Holder.

#### (B) Amount of Biweekly Payments

My biweekly payment will be in the amount of U.S. \$ \_\_\_\_\_.

#### (C) Manner of Payment

My biweekly payments will be made by an automatic deduction from an account I will maintain with the Note Holder, or with a different entity specified by the Note Holder. I will keep sufficient funds in the account to pay the full amount of each biweekly payment on the date it is due.

I understand that the Note Holder, or an entity acting for the Note Holder, may deduct the amount of my biweekly payment from the account to pay the Note Holder for each biweekly payment on the date it is due until I have paid all amounts owed under this Note.

### 4. TERM

If I make all my biweekly payments on time, and pay all other amounts owed under this Note, I will repay my loan in full on \_\_\_\_\_. If, on \_\_\_\_\_, [insert applicable 15-, 20- or 30- year maturity date based on a monthly repayment schedule] I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "Maturity Date".

5. [omitted]

6. [omitted]

### 7. BORROWER'S FAILURE TO PAY AS REQUIRED

#### (A) Late Charge for Overdue Payments

If the Note Holder has not received the full amount of any biweekly or monthly payment by the end of 15 calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be 2% of my overdue payment of principal and interest. I will pay this late charge promptly but only once on each late payment.



**(B) Default**

If I do not pay the full amount of each biweekly or monthly payment on the date it is due, I will be in default. I also will be in default if I do not maintain the account I am required to maintain under Section 3(C) above.

**(C) Termination of Biweekly Payments**

If I am in default for three consecutive biweekly payments, the Note Holder may terminate my right to make biweekly payments under this Note. If the Note Holder terminates my biweekly payments, I will instead pay all amounts owed under this Note by making one payment each month on the first day of the month.

The Note Holder will determine the amount of my monthly payment by calculating the amount that would be sufficient to repay all amounts owed under this Note in full on the Maturity Date in substantially equal payments. Beginning with the first day of the month after the month in which I am given notice of termination, I will pay the new amount as my monthly payment until the Maturity date.

**B. BIWEEKLY PAYMENT AMENDMENTS TO THE SECURITY INSTRUMENT**

1. Until Borrower's right to make biweekly payments is terminated under the conditions stated in Section A of this Biweekly Payment Rider, the Security Instrument is amended as follows:

- (a) The word "monthly" is changed to "biweekly" in the Security Instrument wherever "monthly" appears.
- (b) In Uniform Covenant 2 of the Security Instrument ("Funds for Taxes and Insurance"), the words "one-twelfth" are changed to "one twenty-sixth".

2. If Lender terminates Borrower's right to make biweekly payments under the conditions stated in Section A of this Biweekly Payment Rider, the amendments to the Security Instrument contained in Section B 1 above shall then cease to be in effect, and the provisions of the Security Instrument shall instead be in effect without the amendments stated in this Biweekly Payment Rider.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Biweekly Payment Rider.

----- (Seal)  
-Borrower

----- (Seal)  
-Borrower

## APPENDIX B

REV. 4/20/88

### ADJUSTABLE RATE BI-WEEKLY MORTGAGE RIDER (ONE OR THREE YEAR INDEX-PAYMENT CAP)

THIS ADJUSTABLE RATE RIDER is made this \_\_\_\_\_ and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed (the "Security Instrument") of the same date given by the undersigned (the "Borrower") to secure Borrower's Adjustable Rate Note (the "Note") to \_\_\_\_\_ (the "Lender") of the same date and

covering the property described in the Security Instrument and located at:

Apt/Unit

### THE NOTE CONTAINS PROVISIONS ALLOWING FOR CHANGES IN THE INTEREST RATE, TERM AND BI-WEEKLY OR MONTHLY PAYMENT.

**ADDITIONAL COVENANTS.** In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

#### A. INTEREST RATE, TERM AND BI-WEEKLY OR MONTHLY PAYMENT CHANGES

The Note provides for an initial interest rate of \_\_\_\_\_ %. The Note provides for changes in the interest rate, term and the bi-weekly or monthly payments, as follows:

4. Interest Rate, Term and Bi-Weekly Payment Changes;

(A) Change Dates

The interest rate I will pay may change on \_\_\_\_\_ and on that day every \_\_\_\_\_ month thereafter. Each date on which my interest rate could change is called a "Change Date".

(B) The Index

Beginning with the first Change Date, my interest rate will be based on an Index. The "Index" is the weekly average yield on United States Treasury securities adjusted to a constant maturity of \_\_\_\_\_ year(s) as made available by the Federal Reserve Board. The most recent Index figure available as of the date 45 days before each Change Date is called the "Current Index."

If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information. The Note Holder will give me notice of this choice.

(C) Calculation of Changes

Before each Change Date, the Note Holder will recalculate the term and maturity date on the reduced principal balance that will exist on the change date using the current monthly principal and interest payment.

The Note Holder will then calculate my new interest rate adding \_\_\_\_\_ percentage points \_\_\_\_\_ % to the Current Index. The Note Holder will then round the result of this addition to the nearest one-eighth of one percentage point (0.125%). This rounded amount will be my new interest rate until the next Change Date.

The Note Holder using the reduced term and the new interest rate will recalculate the new monthly principal and interest payment for the next period. The result of this calculation will be divided by 2 and is called the "Full Payment". It will be the new amount of my bi-weekly payment.

(D) Maximum Change

The interest rate to be charged pursuant to this Note shall in no event be increased or decreased by

more than \_\_\_\_\_ % at any Change Date nor by more than \_\_\_\_\_ % over the life of the loan.

(E) Effective Date of Changes

My new interest rate will become effective on each Change Date. I will pay the amount of my new bi-weekly payment beginning with the first bi-weekly payment date after the Change Date until the amount of my bi-weekly payment changes again. (In some instances less than 14 days will elapse from the change date to the first new bi-weekly payment date which would be 14 days after the previous bi-weekly payment date. In those instances, the number of days elapsing from the change date to the new bi-weekly payment date will accrue interest at the newly adjusted rate of interest and the remainder of days for the 14 day period would accrue interest at the previous interest rate. Where the interest rate accrues at different rates during the first bi-weekly payment after the change date, the amount of the payment applied to principal may be greater or less than that applied from subsequent payments depending on whether or not the new rate of interest is higher or lower than the previous rate of interest). All subsequent bi-weekly payments, until changed again, will accrue interest at the new interest rate.

**7. NOTICE OF CHANGES-**

The Note Holder will deliver or mail to me a notice of any changes in my interest rate and the amount of my bi-weekly payment before the effective date of any change. The notice will include information required by law to be given me and also the name, title and telephone number of a person who will answer any questions I may have regarding the notice.

**10. TERMINATION OF BI-WEEKLY PAYMENTS**

If I am in default for three consecutive bi-weekly payments, the Note Holder may terminate my right to make bi-weekly payments under this Note. If the Note Holder terminates my bi-weekly payments, I will instead pay all amounts owed under this Note by making one payment each month on the first day of the month.

**B. TRANSFER OF THE PROPERTY OR A BENEFICIAL INTEREST IN BORROWER**

Uniform Covenant 17 of the Security Instrument is amended to read as follows:

**TRANSFER OF THE PROPERTY OR A BENEFICIAL INTEREST IN BORROWER.** If all or any part of the Property or any interest in it is sold or transferred (or if a beneficial interest in Borrower is sold or transferred and Borrower is not a natural person) without Lender's prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if exercise is prohibited by federal law as of the date of this Security Instrument. Lender also shall not exercise this option if: (a) Borrower causes to be submitted to Lender information required by Lender to evaluate the intended transferee as if a new loan were being made to the transferee; and (b) Lender reasonably determines that Lender's security will not be impaired by the loan assumption and that the risk of a breach of any covenant or agreement in this Security Instrument is acceptable to Lender.

To the extent permitted by applicable law, Lender may charge a reasonable fee as a condition to Lender's consent to the loan assumption. Lender may also require the transferee to sign an assumption agreement that is acceptable to Lender and that obligates the transferee to keep all the promises and agreements made in the Note and in this Security Instrument. Borrower will continue to be obligated under the Note and this Security Instrument unless Lender releases Borrower in writing.

If Lender exercises the option to require immediate payment in full, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is delivered or mailed within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

**C. BI-WEEKLY PAYMENT AMENDMENTS TO THE SECURITY INSTRUMENT**

(1) Until Borrower's right to make bi-weekly payments is terminated under the conditions stated in Section A-10 of this Bi-Weekly Payment Rider, the Security Instrument is amended as follows:

- (a) The word "monthly" is changed to "bi-weekly" in the Security Instrument wherever "monthly"

appears.

- (b) In Uniform Covenant 2 of the Security Instrument ("Funds for Taxes and Insurance"), the words "one-twelfth"

are changed to "one twenty-sixth:"

(2) If Lender terminates Borrower's right to make bi-weekly payments under the conditions stated in Section A-10 of this Bi-Weekly Payment Rider, the amendments to the Security Instrument contained in Section C(1) above shall then cease to be in effect, and the provisions of the Security Instrument shall instead be in effect without the amendments stated in this Bi-Weekly Payment Rider.

**BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Adjustable Rate Rider.**

----- (Seal)

-BORROWER

----- (Seal)

-BORROWER

## APPENDIX C

Dollar Amount of Interest Saved On a 15 Year\* Biweekly Mortgage  
When Compared to a 15 Year Monthly Mortgage

### MORTGAGE AMOUNT

Interest Rate	50,000	100,000	150,000	200,000	250,000
12%	12,834	25,667	38,500	51,329	64,162
11%	10,750	21,499	32,248	42,999	53,651
10-1/2%	9,799	18,336	29,394	39,172	48,990
10%	8,906	17,811	26,715	35,620	44,524
9-1/2%	8,069	16,134	24,201	32,269	40,334
9%	7,285	14,567	21,849	29,133	36,415
8-1/2%	6,553	13,102	19,653	26,202	32,754
8%	5,869	11,737	17,604	23,471	29,534

\*'Because of the biweekly payment provisions, the loan will in fact be paid off in approximately 12 years.

Dollar Amount of Interest Saved On a 30 Year- Biweekly Mortgage  
When Compared to a 30 Year Monthly Mortgage

### MORTGAGE AMOUNT

Interest Rate	50,000	100,000	150,000	200,000	250,000
12%	58,953	117,943	176,899	235,871	294,859
11%	48,575	97,161	145,735	194,320	242,906
10-1/2%	43,752	87,496	131,255	175,001	218,759
10%	39,179	78,371	117,544	156,735	195,921
9-1/2%	34,886	69,782	104,662	139,553	174,432
9%	30,876	61,743	92,621	123,485	154,352
8-1/2%	27,136	54,287	81,426	108,563	135,703
8%	23,699	47,397	71,094	95,793	118,491

\*'Because of the biweekly payment provisions, the loan will in fact be paid off in approximately 21.5 yrs.

Note that the savings are more dramatic for longer terms and higher interest rates.

**APPENDIX D**

***THE bank***  
**INTEREST SAVER**  
**BI-WEEKLY ADVANTAGE**

Monthly Payment Plan			Bi-Weekly Payment Plan			Additional Equity Growth Using Bi-Weekly Payment Plan	
Year	Principal Balance	Principal Paid	Year	Principal Balance	Principal Paid	Year	
1	\$99,414.36	\$ 585.64	1	\$98,484.28	\$ 1,515.72	1	\$ 930.08
2	98,768.99	1,231.01	2	\$96,814.08	3,185.92	2	1,954.91
3	98,057.83	1,942.17	3	94,973.65	5,026.35	3	3,084.18
4	97,274.14	2,725.86	4	92,945.70	7,054.30	4	4,328.44
5	96,410.52	3,589.48	5	90,711.01	9,288.99	5	5,699.51
6	95,458.84	4,541.16	6	88,248.60	11,751.40	6	7,210.24
7	94,410.09	5,589.91	7	85,535.20	14,464.80	7	8,874.89
8	93,254.41	6,745.59	8	82,545.26	17,454.74	8	10,709.15
9	91,980.89	8,019.11	9	79,250.63	20,749.37	9	12,730.26
10	90,577.51	9,422.49	10	75,620.20	24,379.80	10	14,957.31
11	89,030.98	10,969.02	11	71,619.76	28,380.24	11	17,411.22
12	87,326.76	12,673.24	12	67,211.63	32,788.37	12	20,115.13
13	85,448.75	14,551.25	13	62,354.22	37,645.78	13	23,094.53
14	83,379.21	16,620.79	14	57,001.76	42,998.24	14	26,377.45
15	81,098.64	18,901.36	15	51,103.78	48,896.22	15	29,994.86
16	78,585.52	21,414.48	16	44,604.71	55,395.29	16	33,980.81
17	75,816.12	24,183.88	17	37,443.28	62,556.72	17	38,372.84
18	72,764.29	27,235.71	18	29,551.94	70,448.06	18	43,212.35
19	69,401.24	30,598.76	19	20,856.35	79,143.65	19	48,544.89
20	65,695.25	34,304.75	20	11,274.53	88,725.47	20	54,420.72
21	61,611.31	38,388.69	21	1,005.41	98,994.59	21	60,605.90
22	57,110.90	42,889.10	22	0.00	–	22	–
23	52,151.57	47,848.43	23	0.00	–	23	–
24	46,686.48	53,313.52	24	0.00	–	24	–

25	40,664.10	59,335.90	25	0.00	-	25	-
26	34,027.56	65,972.44	26	0.00	-	26	-
27	26,714.22	73,285.78	27	0.00	-	27	-
28	18,655.11	81,344.89	28	0.00	-	28	-
29	9,774.14	90,225.86	29	0.00	-	29	-
30	0.00	-	30	0.00	-	30	-

Original Loan Amount: \$100,000.00  
Monthly Payment: \$859.16  
Interest Rate: 9.75  
Term In Years: 30

Total of Payments (Monthly) \$209,285.11  
Total of Payments (Bi-Weekly) 135,276.06

**Total Interest Savings \$74,009.05**

This chart provides a comparison between monthly mortgage payments and the Bi-weekly payment plan. The example above illustrates the accelerated growth in Equity borrowers can achieve by using the Bi-weekly payment plan as well as the Total Interest savings over the full life of the loan.

Purchasers who plan on staying in a home from 3 to 5 years can realize a significant increase in Equity Growth by selecting the Bi-weekly payment plan.

**STATEN ISLAND SAVINGS BANK - 447-7900**